

## **CHP Financing Methods and Influencing Factors**

### **Internal Cash Flow**

Organizations sometimes use their own funds to purchase equipment and may base purchasing decisions on a minimum attractive rate of return (MARR).

### **Bank Loan**

Most lender considerations include credit history, financial statements, an estimate of project revenues and costs over the life of the project, energy costs, financing costs, tax considerations, ratio of operating income to debt service requirements, required rate of return, or similar analysis.

### **Bonds**

A note obliging a corporation or governmental unit to repay, on a specified date, money loaned to it by the bondholder. The holder receives interest for the life of the bond. In the case of an industrial revenue bond such as authorized by KRS 103.210 (...any city or county may borrow money and issue negotiable bonds for the purpose of defraying the cost of acquiring any industrial building or pollution control facility...) CHP projects may be able to pursue funding by this method if available at the corresponding local government level.

### **Energy Savings Performance Contract (ESPC)**

A contract involving an energy services company (ESCO) who guarantees energy savings for the life of the contract. The ESCO may also take care of the installation, operations, and maintenance of the equipment.

### **Grants**

Money typically originating from government agencies with the goal of promoting specific technologies, or an outcome that benefits the general public.

### **Vendor Financing**

Competitive financing may be available from CHP vendors looking to stimulate the market, or to secure involvement in the project.

### **Leasing**

There are multiple varieties of CHP leasing with various benefits, or obligations, but some common characteristics are that the lease appears on the balance sheet as a debt, may require

transfer of ownership at lease end, length is typically 75% of projected equipment life, net present value of lease payments may be 90% of the equipment value.

### **Partnership or Joint Venture**

Members of a partnership pool money together to invest in projects. Liability of each partner may be unlimited (general partnership), or limited to original investment. A joint venture is a partnership that dissolves at project completion.

### **Utility Programs**

Utilities may have an unregulated (not funded by rate payers) energy services business that could provide financing or other services. Additionally demand side management (DSM) programs, where available, could offer financing, or rebate programs for certain projects. Check with your utility for availability of custom programs and also for tariff/contract information relevant to CHP.

### **Tax Issues**

- **Incentives** – Federal or State Tax Credits may be available. Check <http://www.dsireusa.org/>
- **Depreciation** – Check with tax professionals regarding calculation of CHP depreciation including the depreciation period and whether straight line, or accelerated depreciation is required. Financial impact of these parameters can be significant.

### **Potential Future Options**

- **Energy Project Assessment District (ePAD)**

Commonly known as PACE financing nationally, this method would service loans via property tax assessment. Kentucky legislature may consider an ePAD bill again in 2015.

- **Kentucky Reinvestment Act Tax Credits**

A proposal that could provide for a tax credit of 50% of energy efficiency investment, including CHP, over a two year period, may be considered in the 2015 General Assembly.

### **References**

- <http://www.gulfcoastchp.org/TechnicalSupport/Financing/tabid/1672/Default.aspx>
- [http://www.epa.gov/chp/documents/pguide\\_financing\\_options.pdf](http://www.epa.gov/chp/documents/pguide_financing_options.pdf)

(At the above links you will find information about additional financing methods such as equity financing, build/own/operate (BOO), or other third party arrangements.